

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Blue Water Area Transportation Commission	County St. Clair
Fiscal Year End September 30, 2006	Opinion Date December 19, 2006	Date Audit Report Submitted to State March 26, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

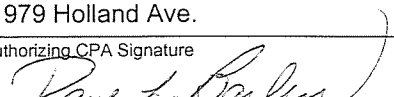
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple		Telephone Number 810-984-3829	
Street Address 1979 Holland Ave.		City Port Huron	State MI
		Zip 48060	
Authorizing CPA Signature 		Printed Name Paul L. Bailey	License Number 1101014088

**BLUE WATER AREA  
TRANSPORTATION COMMISSION  
Port Huron, Michigan**

**ANNUAL FINANCIAL STATEMENTS  
with Supplementary Information**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2006 AND 2005**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Blue Water Area Transportation Commission  
Port Huron, Michigan

We have audited the accompanying financial statements of the Blue Water Area Transportation Commission as of September 30, 2006 and 2005, and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

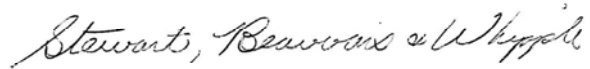
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Blue Water Area Transportation Commission, as of September 30, 2006 and 2005, and cash flows for the years then ended in conformity with accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 19, 2006, on our consideration of the Commission's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 5 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the Blue Water Area Transportation Commission. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

December 19, 2006

# **BLUE WATER AREA TRANSPORTATION COMMISSION**

## **Management's Discussion and Analysis**

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Our discussion and analysis of the Blue Water Area Transportation Commission's financial statements provides an overview of the Commission's financial activities for the fiscal year ended September 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets provide information about the activities of the Commission and present a long-term view of the Commission's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, supplementary financial information and supplementary information on federal and state awards.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Commission's overall financial status. These statements report information about the Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid. The two government-wide statements report the Commission's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities; this is one way to measure the Commission's financial health or position.
- The third statement is the Statement of Cash Flows which shows the change in cash and cash equivalents presenting all activity of the Commission on a cash basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

Also included in this report is Supplementary Information regarding Federal and State Awards, which is required because the Commission spends in excess of \$500,000 of federal revenue.

### ***Government-wide Financial Statements***

The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets report information about the Commission, as a whole, and about its activities in a way that helps answer the question of whether the Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Commission's net assets and how they have changed. The reader can think of the Commission's net assets (the difference between assets and liabilities) as one way to measure the Commission's financial health or financial position. Over time, increases or decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To access the overall health of the Commission, you need to consider additional factors such as changes in the general economy and changes in the laws related to Federal and State transportation funding.

### ***Fund Financial Statements***

The Commission has only one fund, the General Operating fund, in which all of the Commission's activities are accounted. The General Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

### **FINANCIAL OVERVIEW**

The Commission had net assets of \$19,378,503 at September 30, 2006. This is an increase of \$9,258,265 over fiscal 2005 restated statement. Of the net assets at September 30, 2006, \$16,623,144 was a result of capital assets owned by the Commission, with the remaining \$2,755,359 unrestricted. The table below summarizes the net assets at September 30, 2006 and 2005.

	<u>2006</u>	<u>Restated 2005</u>
<b>Assets</b>		
Current assets	\$ 7,601,561	\$ 4,799,701
Capital assets	<u>16,623,144</u>	<u>6,420,078</u>
Total assets	<u>24,224,705</u>	<u>11,219,779</u>
<b>Liabilities</b>		
Current liabilities	4,846,202	1,031,918
Long-term liabilities	<u>-</u>	<u>67,623</u>
Total liabilities	<u>4,846,202</u>	<u>1,099,341</u>
<b>Net Assets</b>		
Invested in capital assets - Net	16,623,144	6,420,078
Unrestricted	<u>2,755,359</u>	<u>3,700,160</u>
Total net assets	<u>\$19,378,503</u>	<u>\$10,120,238</u>

The increase in net assets of \$9,258,265 is mainly a result of the purchase of capital assets, funded by grants of \$9,623,144 less the depreciation of \$1,103,077, increase of interest earned \$82,404 and for increased operating grants from the State and Federal governments of \$626,501.

The following table summarizes the changes in net assets for 2006 and 2005.

	<u>2006</u>	<u>Restated 2005</u>
<b>Revenue</b>		
Operating Revenue	\$ 3,242,612	\$ 3,144,691
Non-operating Revenue –		
State and Federal Fund	4,454,346	3,827,845
Other	<u>139,931</u>	<u>67,127</u>
	7,836,889	7,039,663
Operating Expenses	<u>( 8,201,768)</u>	<u>7,757,212</u>
Net (Loss) before Capital Grant	( 364,879)	( 717,549)
Capital Grant	<u>9,623,144</u>	<u>2,342,244</u>
Net Income (Loss)	<u>\$ 9,258,265</u>	<u>\$ 1,624,695</u>

Of the operating revenues of \$3,242,612 for fiscal 2006, \$3,011,383 or 93% was received from contractual revenue from other municipalities or nonprofit agencies. The other major sources of revenue were \$4,454,346 from federal and state agencies for operations and \$9,623,144 for capital acquisitions.

## **CAPITAL ASSETS**

The Commission has \$16,623,144 invested in capital assets (net of accumulated depreciation) as of September 30, 2006. The investment in capital assets includes, land, buildings, machinery and equipment, office equipment and buses and other vehicles and construction in progress. During the year the Commission purchased approximately \$11,306,143 of which \$11,265,563 was from the construction of the new bus storage, maintenance and administration facility.

The following table summarizes the capital assets at September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Land	\$ 405,942	\$ 405,942
Land Improvements	25,102	25,102
Buildings	981,911	981,911
Machinery and Equipment	1,630,384	1,612,509
Office Furniture and Equipment	32,703	26,093
Buses and Vehicles	9,747,317	9,922,112
Construction in Progress	<u>11,265,563</u>	<u>-</u>
	24,088,922	12,973,672
Accumulated Depreciation	<u>( 7,465,778)</u>	<u>( 6,553,594)</u>
Capital Assets, Net of Depreciation	<u>\$16,623,144</u>	<u>\$ 6,420,078</u>

## **ECONOMIC FACTORS AND NEXT YEARS OPERATIONS**

Blue Water Area Transportation Commission has a balanced budget for fiscal year 2007 without having to make cuts in service.

Fuel cost increases may have a negative impact on Blue Water Area Transportation Commission in 2007.

Blue Water Area Transportation Commission has completed a large capital building project. It has borrowed \$2,290,000 against a line of credit and invested some of its own local funds in order to complete the project in fiscal year 2007. Under a Letter of "No Prejudice" from the Federal Transit Administration dated March 22, 2006, the Commission can repay the loan and its local funds with \$4,500,000 of unappropriated Federal funds and \$1,125,000 of future state matching funds. The project was included as a High Priority Project in the last Federal Transportation Reauthorization (SAFETEA-LU). The \$4,500,000 of unappropriated Federal funds is designated for the Commission's project in fiscal years 2007, 2008 and 2009 under SAFETEA-LU.

In 2004, a four-year operating millage for Blue Water Area Transportation was approved by the City of Port Huron and the Charter Township of Fort Gratiot.

## **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens and other interested parties a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Blue Water Area Transportation Commission, 2021 Lapeer Avenue, Port Huron, MI 48060.



## **BASIC FINANCIAL STATEMENTS**

# BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

## STATEMENT OF NET ASSETS SEPTEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>Restated 2005</u>
<b>ASSETS:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,948,960	\$ 2,987,532
Accounts receivable	186	213
Due from other governmental units/nonprofit agencies -		
Federal	1,764,807	293,490
State	417,700	251,692
Local	753,738	553,489
Inventory	471,029	458,315
Deposit in insurance pool	157,018	182,719
Prepaid expenses	88,123	72,251
Total Current Assets	<u>7,601,561</u>	<u>4,799,701</u>
<b>Capital Assets:</b>		
Land and land improvements	431,044	431,044
Building	981,911	981,911
Machinery and equipment	1,630,384	1,612,509
Office furniture and equipment	32,703	26,093
Transportation equipment and improvements	9,747,317	9,922,115
Construction in progress	11,265,563	-
	<u>24,088,922</u>	<u>12,973,672</u>
Less - accumulated depreciation	( 7,465,778)	( 6,553,594)
Total Property and Equipment	<u>16,623,144</u>	<u>6,420,078</u>
<b>Total Assets</b>	<u>24,224,705</u>	<u>11,219,779</u>
<b>LIABILITIES:</b>		
<b>Current Liabilities:</b>		
Accounts payable	3,686,985	47,031
Accrued salaries	49,770	38,537
Other accrued liabilities	53,729	50,873
Insurance payable	31,713	58,871
Due to other agencies	498,217	401,239
Due to other governmental units -		
Federal	160,446	84,839
State	89,728	89,728
Deferred revenue	275,614	260,800
Total Current Liabilities	<u>4,846,202</u>	<u>1,031,918</u>
<b>Long-term Liabilities (less current portion)</b>		
Insurance payable	-	67,623
	<u>4,846,202</u>	<u>1,099,541</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net	16,623,144	6,420,078
Unrestricted	2,755,359	3,700,160
Total Net Assets	<u>\$ 19,378,503</u>	<u>\$ 10,120,238</u>

The accompanying notes are an integral part of these financial statements.

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	2006	Restated 2005
<b>Operating Revenues:</b>		
Farebox, Ticket and Bus Passes	\$ 189,737	\$ 173,304
Charter	8,717	19,975
Advertising	3,215	3,700
Contractual fares	479,708	512,610
Tax Revenues/Contractual Services	1,054,951	1,019,274
Contributions from local agencies	1,476,724	1,401,082
Other	29,560	14,746
	<u>3,242,612</u>	<u>3,144,691</u>
<b>Operating Expenses:</b>		
Administrative	608,620	561,131
Operations	6,012,847	5,725,702
Maintenance	1,399,484	1,285,501
Facilities	180,817	184,878
Total Operating Expenses	<u>8,201,768</u>	<u>7,757,212</u>
<b>Operating Loss</b>	<u>( 4,959,156)</u>	<u>( 4,612,521)</u>
<b>Non-Operating Revenues:</b>		
Interest Earned	139,931	57,527
Gain on sale of fixed assets	-	9,600
State & Federal Revenues	4,454,346	3,827,845
Total Non-Operating Revenues	<u>4,594,277</u>	<u>3,894,972</u>
<b>Net Loss before Capital Grants</b>	<u>( 364,879)</u>	<u>( 717,549)</u>
<b>Capital Grants</b>	<u>9,623,144</u>	<u>2,342,244</u>
<b>Net Income</b>	9,258,265	1,624,695
<b>Net Assets at beginning of year</b>	<u>10,120,238</u>	<u>8,495,543</u>
<b>Net Assets at end of year</b>	<u><u>\$ 19,378,503</u></u>	<u><u>\$ 10,120,238</u></u>

The accompanying notes are an integral part of these financial statements.

# BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

## STATEMENT OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	Restated 2005
<b>Cash Flows From Operating Activities:</b>		
Cash receipts from customers	\$ 1,648,177	\$ 1,330,279
Cash payments to suppliers	( 2,571,823)	( 2,315,759)
Cash payments to employees	( 3,129,219)	( 2,773,573)
Net Cash Used by Operating Activities	<u>( 4,052,865)</u>	<u>( 3,759,053)</u>
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Cash received from intergovernmental sources	<u>2,977,467</u>	<u>3,634,683</u>
Net Cash Provided by Non-Capital Financing Activities	<u>2,977,467</u>	<u>3,634,683</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Acquisition of property and equipment	( 7,726,249)	( 2,342,330)
Proceeds from sale of assets	-	9,600
Federal & State capital grants	<u>9,623,144</u>	<u>2,342,244</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,896,895</u>	<u>9,514</u>
<b>Cash Flows From Investing Activities:</b>		
Interest	<u>139,931</u>	<u>57,527</u>
Net Cash Provided by Investing Activities	<u>139,931</u>	<u>57,527</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	961,428	( 57,329)
<b>Cash and Cash Equivalents at beginning of year</b>	<u>2,987,532</u>	<u>3,044,861</u>
<b>Cash and Cash Equivalents at end of year</b>	<u><u>\$ 3,948,960</u></u>	<u><u>\$ 2,987,532</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</b>		
Operating loss for the year	\$( 4,959,156)	\$( 4,612,521)
Adjustments to reconcile operating loss		
to net cash used by operating activities -		
Depreciation	1,103,077	1,069,561
Changes in assets and liabilities -		
Accounts receivable	27	165
Due from other governmental units - local	( 200,249)	( 305,772)
Inventory	( 12,714)	2,874
Prepaid expenses	9,829	( 8,472)
Accounts payable	60,060	16,829
Due to other governmental units - local	( 84,839)	( 124,902)
Due to other agencies	96,978	258,700
Insurance payable	( 94,781)	( 76,375)
Accrued liabilities	14,089	3,681
Deferred revenue	<u>14,814</u>	<u>17,179</u>
Net Cash Used by Operating Activities	<u><u>\$( 4,052,865)</u></u>	<u><u>\$( 3,759,053)</u></u>
<b>Non-cash Financing activities:</b>		
Contributions from local agencies	<u><u>\$ 1,476,724</u></u>	<u><u>\$ 1,401,082</u></u>

The accompanying notes are an integral part of these financial statements.

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

The accounting methods and procedures adopted by the Blue Water Area Transportation Commission conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are an integral part of the Commission's financial statements:

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity -**

The Blue Water Area Transportation Commission (BWATC) was created as a legal and administrative agency pursuant to the Urban Cooperation Act, PA 1967, Ex. Sess., No. 7. It is a quasi-governmental agency providing public transportation in St. Clair County, Michigan and surrounding areas.

**B. District-Wide and Fund Financial Statements -**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Commission. The Blue Water Area Transportation Commission is accounted for in one business-type fund.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation -**

The Commission's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity, subject to this same limitation. The Commission has selected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets on Equity -**

**Cash Equivalents -**

Cash equivalents are deposits and short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents also consist of investment trusts which are recorded at cost and approximate "fair" value. The Investment Trust Funds have the general characteristics of demand deposit accounts in that the Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Receivables -**

All receivables are shown net of allowance for uncollectible amounts.

**Prepaid Items -**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statement.

**Inventory -**

Inventory consists of parts, tires, oil and lubricants, diesel fuel, and various other supplies which are stated at lower of average of cost or market.

**Capital Assets -**

Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000, except for assets purchased with federal or state grants which are capitalized regardless of the amount, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method, based on the estimated useful service lives of the respective assets. The estimated useful service lives are as follows:

Building	18.5 – 30 years
Machinery and equipment	2 – 10 years
Office furniture and equipment	3 – 6 years
Transportation equipment and improvements	4 – 12 years

**Estimates -**

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Vacation Pay -**

Vacation is earned based upon length of service with BWATC. In most cases, it must be used within one fiscal year after it is earned or it is forfeited. Under this criteria, all accrued vacation pay recorded at September 30 must be taken prior to the next fiscal year end or is lost. Therefore, all accrued vacation pay at September 30 is reported as a current liability.

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 2 - DEPOSITS AND INVESTMENTS:**

As of September 30, 2006 and 2005, the carrying amount of the deposits and investments is as follows:

	<u>2006</u>	<u>2005</u>
Deposits with Financial Institution	\$ 149,990	\$ 101,421
Investment –		
Investment Trust Funds	<u>3,798,970</u>	<u>2,886,111</u>
	<u>\$ 3,948,960</u>	<u>\$ 2,987,532</u>

It is the policy of the Blue Water Area Transportation Commission to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Blue Water Area Transportation Commission and comply with all state statutes governing the investment of public funds. The primary objective, in the order of priority, is safety of principle, diversification, liquidity and return on investment.

**Deposits -**

The Michigan Compiled Law, authorizes the Commission to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

*Custodial Credit Risk* – is the risk that in the event of a bank failure, the Commission's deposits or investments may not be returned. The Commission does not have a deposit policy for custodial credit risk.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of September 30, 2006, the carrying amount and the bank balance is \$149,990 and \$217,127, respectively, of which \$100,000 was covered by FDIC insurance and the remaining \$117,127 was uninsured and uncollateralized. As of September 30, 2005, the carrying amount and bank balance was \$101,421 and \$200,476, respectively, of which \$100,000 was covered by FDIC insurance and the remaining \$100,476 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Commission held as cash and cash equivalents increases significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents was substantially higher at these peak periods than at year-end.

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 2 - DEPOSITS AND INVESTMENTS - (cont'd):**

**Investments -**

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Commission to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

*Interest Rate Risk* – is the risk that the market value of securities in the Commission's portfolio will fall due to changes in market interest increases. The Commission's policy attempts to minimize interest rate risk by seeking a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

*Credit Risk* – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Commission's investment policy and state law limits the type of investments that can be purchased.

*Concentration of credit risk* – is the risk of loss attributed to the magnitude of the Commission's investments in a single issuer. The Commission's investment policy requires that investments be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

As of September 30, 2006, the Commission was invested in one external investment pool. The fund invests primarily in a portfolio of short-term U.S. Treasury securities. These investments include repurchase agreements collateralized fully by U.S. Treasury securities. It is rated as AAAM by Standards & Poors and Aaa by Moody's, and has an average maturity of 17.61 days.

The investment trust has been reported in the financial statements as a cash equivalent because it has the general characteristics of demand deposit accounts in that the Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.



**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 3 - CAPITAL ASSETS:**

Capital asset activity for the year ended September 30, 2006 was as follows:

	Oct. 1, 2005			Sept. 30, 2006
	Balance	Additions	Deletions	Balance
Capital assets, being depreciated:				
Construction in progress	\$ -	\$11,265,563	\$ -	\$ 11,265,563
Land	405,942	-	-	405,942
	<u>405,942</u>	<u>11,265,563</u>	<u>-</u>	<u>11,671,505</u>
Capital assets, being depreciated:				
Buildings	981,911	-	-	981,911
Land improvements	25,102	-	-	25,102
Machinery and equipment	1,612,509	23,592	5,717	1,630,384
Office furniture and equipment	26,093	11,525	4,915	32,703
Buses and vehicles	9,922,115	5,460	180,258	9,747,317
Total capital assets being depreciated	<u>12,567,730</u>	<u>40,580</u>	<u>190,890</u>	<u>12,417,417</u>
Less accumulated depreciation for:				
Buildings	588,943	63,286	-	652,229
Land improvements	21,302	471	-	21,773
Machinery and equipment	932,905	179,143	5,717	1,106,331
Office furniture and equipment	20,990	2,671	4,915	18,746
Buses and vehicles	4,989,454	857,503	180,258	5,666,699
Total accumulated depreciation	<u>6,553,594</u>	<u>1,103,077</u>	<u>190,890</u>	<u>7,465,778</u>
Total capital assets being depreciated, net	<u>6,014,136</u>	<u>( 1,062,497)</u>	<u>-</u>	<u>4,951,639</u>
Total capital assets, net	<u>\$ 6,420,078</u>	<u>\$10,203,066</u>	<u>\$ -</u>	<u>\$ 16,623,144</u>

**NOTE 4 - INTERGOVERNMENTAL - LOCAL OPERATING REVENUES:**

**City of Port Huron and the Charter Township of Fort Gratiot** - These local units levy taxes to provide revenue for the governmental units' contributions for the operation of the Commission. The municipalities' obligation is limited only to the amount the millage raised by each unit.

**Charter Township of Port Huron, Burtchville Township and the City of Marysville** - These local units have entered into agreements with the Commission to provide services for their respective municipality. The agreement specifies that each of the units shall reimburse the Commission for the cost of providing the services, less any grants or fees received.

**NOTE 5 - DEFERRED COMPENSATION:**

The Commission offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Once a trust, custodial account or annuity contract exists, assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

# **BLUE WATER AREA TRANSPORTATION COMMISSION**

**Port Huron, Michigan**

## **NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2006 AND 2005**

### **NOTE 5 - DEFERRED COMPENSATION - (cont'd):**

The Commission has determined that a fiduciary relationship does not exist and as a result the Deferred Compensation Plan is not reported as part of the Blue Water Area Transportation Commission.

### **NOTE 6 - CONTRACTED TRANSPORTATION SERVICES:**

The Blue Water Area Transportation Commission contracts with various municipalities and nonprofit agencies to provide transportation services. Under the agreements, the agencies are to pay for all of said services and are reimbursed for a percent of Eligible Operating Expenses and, if applicable, an additional amount for any Nonurban costs. The total cost of providing these services are included in the Commission's Financial Statement, with the difference between the anticipated amount funded with Federal and State grants recorded as a local agency contribution. As of September 30, 2006 and 2005, the Commission has recorded a liability of \$498,217 and \$401,239 to these agencies.

### **NOTE 7 - MICHIGAN DEPARTMENT OF TRANSPORTATION:**

The Michigan Department of Transportation (MDOT) provides funding to the Commission based on a percentage of eligible expenditures, with the actual percentage determined once MDOT receives all the audit reports. In addition, the Commission receives money from the federal government based on a percentage of non-urban eligible expenses.

The Commission has recorded revenues of \$2,891,213 and \$2,735,831 from MDOT for 2006 and 2005, respectively and \$1,548,135 and \$1,077,016 from the federal government for 2006 and 2005, respectively.

### **NOTE 8 - OPERATING LEASE:**

The Blue Water Area Transportation Commission had a non-cancelable lease for a parking and storage facility which expired July 14, 2005, and was extended on a monthly basis with the same terms described in the original lease with monthly payments of \$3,039. Rental expense for the years ended September 30, 2006 and 2005 was \$36,468.

### **NOTE 9 - CONTINGENT LIABILITIES:**

As indicated in Note 6, the Commission has contracted with other agencies to provide certain transportation services. The costs of providing these services and reimbursement from MDOT is based on eligible costs incurred and provided by the various agencies. Each agency is subject to an audit by a certified public accounting firm, however the audits have not been completed as of issuance date of the Commission's financial statements. Any adjustment, if any, as a result of these audits could not be determined.

### **NOTE 10 - LONG-TERM DEBT:**

The Commission owed the Michigan Insurance Transit Pool \$31,713 and \$126,494 for 2006 and 2005, respectively, for retrospective adjustments. The balance at September 30, 2006 will be repaid in fiscal 2007.

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 11 - EMPLOYEE PENSION PLAN:**

**Plan Description -**

As of October 1, 1999 the Blue Water Area Transportation Commission adopted the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy -**

The plan adopted by the Commission requires no member contributions. The Commission is required to contribute at an actuarially determined rate; the rate for 2006 was from 7.36% to 7.80%. The contribution requirements of plan members and the Commission are established and may be amended by the Commission, depending on the MERS contribution program adopted by the Commission.

**Annual Pension Costs -**

For fiscal 2006 and 2005, the Commission paid annual pension costs of \$118,561 and \$113,415, respectively for MERS, which equaled the Commission's required contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

**Trend Information**

<u>Fiscal Year</u> <u>Ending Sept. 30,</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2004	\$ 100,837	100 %	-
2005	113,415	100	-
2006	118,561	100	-

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 11 – EMPLOYEE PENSION PLAN - (cont'd):**

**Schedule of Funding Progress**

Valuation Date	Actuarial Value of of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
12/31/2003	\$ 1,725,540	\$ 2,170,733	\$ 445,193	79 %	\$ 1,376,377	32 %
12/31/2004	1,916,768	2,454,161	537,393	78	1,351,397	40
12/31/2005	2,118,623	2,687,904	569,281	79	1,484,188	38

**NOTE 12 - RISK MANAGEMENT:**

**General Liability -**

The Commission purchases general liability insurance through a commercial insurance carrier with coverages of \$1,000,000 for each occurrence and \$1,000,000 aggregate limits with deductibles of \$10,000, plus an additional umbrella of \$4,000,000.

**Buildings and Equipment (other than vehicles) -**

Insurance is purchased through a commercial carrier in various amounts with deductibles of \$250 - \$10,000.

**Automobile and General Liability -**

The Commission is a member of the Michigan Transit Pool (MTP). The MTP is an organization of public authorities and agencies providing public transportation services and is established by an intergovernmental agreement pursuant to the provision of MCL Section 124.1 et seq. The MTP is governed by the MTP Board of Commissioners and in accordance with the bylaws, is comprised of one representation of each member systems.

For 2006, the Pool provides a total coverage of \$5,000,000 per each occurrence for risk associated with the operation of Commission vehicles. The Commission is responsible for all losses falling within its self-insured retention of \$50,000 per occurrence, for liability and \$10,000 for damages, plus their share of pooled losses and administration expenses. The Commission is charged an annual premium to cover the fiscal year cost. The actual transportation costs are allocated to the Commission through retroactive adjustments. The Pool requires members to make a contingency reserve and can also maintain a premium stabilization reserve for potential significant claims and to protect the Pool member from major fluctuation and insolvency. The Commission had approximately \$157,018 and \$182,719 on deposit with the Pool at September 30, 2006 and 2005, respectively.

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006 AND 2005**

**NOTE 13 – CONSTRUCTION CONTRACT COMMITMENTS:**

As of September 30, 2006, the new bus storage, maintenance and administration facility had an estimated value at completion of \$14,502,616. The facility was placed into service during the month of November 2006. In summary, the cost breakdown is as follows:

Expended as of September 30, 2006	\$ 11,265,563
Costs to Complete	<u>3,237,053</u>
Total Costs for Project	<u>\$ 14,502,616</u>

In connection, the Blue Water Area Transportation Commission has borrowed \$2,290,000 against a line of credit and invested some of its own local funds in order to complete the project in fiscal year 2007. Under a Letter of “No Prejudice” from the Federal Transit Administration dated March 22, 2006, the Commission can repay the loan and its local funds with \$4,500,000 of unappropriated Federal funds and \$1,125,000 of future state matching funds. The project was included as a High Priority Project in the last Federal Transportation Reauthorization (SAFETEA-LU). The \$4,500,000 of unappropriated Federal funds is designated for the Commission’s project in fiscal years 2007, 2008 and 2009 under SAFETEA-LU.

## **SUPPLEMENTARY FINANCIAL INFORMATION**

**DETAILED SCHEDULE OF OPERATING REVENUES  
FOR THE YEAR ENDED SEPTEMBER 30, 2006  
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2005**

	2006	Restated 2005
Farebox, Tickets and Bus Passes	\$ 189,737	\$ 173,304
Charter	8,717	19,975
Advertising	3,215	3,700
Contractual fares	479,708	512,610
Other operating revenue	29,560	14,746
	<u>710,937</u>	<u>724,335</u>
Tax Revenues/Contractual Services -		
City of Port Huron	430,768	422,271
Charter Township of Fort Gratiot	265,096	252,709
Charter Township of Port Huron	180,735	161,707
Burtchville Township	65,815	72,333
City of Marysville	112,537	110,254
	<u>1,054,951</u>	<u>1,019,274</u>
Other Revenues -		
Contribution from local agencies	1,476,724	1,401,082
Total Operating Revenues	\$ 3,242,612	\$ 3,144,691

**SCHEDULE OF NON-OPERATING REVENUES - STATE AND FEDERAL  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

Tax Revenues -			
SBT inventory tax		\$ 14,998	\$ 14,998
State of Michigan Operating Grants -			
New Bus Operating Assistance (Act 51)	- Current Year	2,789,346	2,578,868
	- Prior	101,867	156,963
		<u>2,891,213</u>	<u>2,735,831</u>
Federal Operating Grants -			
U.S. DOT Operating Grant - Section 5307	- Current Year	1,087,023	842,130
U.S. DOT Operating Grant - Section 5311	- Current Year	461,112	234,886
		<u>1,548,135</u>	<u>1,077,016</u>
Total Non-Operating Revenues - State and Federal		\$ 4,454,346	\$ 3,827,845

# BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

## SCHEDULE OF OPERATING EXPENSES FOR THE YEAR ENDED SEPTEMBER 30, 2006 WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2005

	2006					2005
	Operations	Maintenance	General Admin.	Facilities	Total System	Total System
Labor -						
Operators' salaries and wages	\$ 1,204,131	\$ -	\$ -	\$ -	\$ 1,204,131	\$ 1,136,162
Other salaries and wages	171,981	531,152	282,398	-	985,531	921,638
Fringe benefits -						
Pension	60,939	35,238	22,383	-	118,560	113,415
Other	468,584	171,952	99,769	-	740,305	606,039
Services -						
Travel and training	-	3,766	12,150	-	15,916	20,423
Public information	-	-	28,160	-	28,160	30,689
Other services	-	113,811	68,402	11,318	193,531	173,808
Purchased transportation	2,744,026	-	-	-	2,744,026	2,612,554
Materials and Supplies Consumed -						
Fuel and lubricants	369,186	-	-	-	369,186	358,222
Tires and tubes	34,897	-	-	-	34,897	23,798
Vehicle equipment - parts	-	308,046	-	-	308,046	295,053
Vehicle equipment - small tools	-	3,158	-	-	3,158	3,513
Other materials and supplies	-	22,044	21,405	-	43,449	36,535
Utilities	9,958	-	6,725	49,876	66,559	64,561
Rent	-	-	-	45,386	45,386	45,317
Casualty and Liability Costs -						
Vehicle insurance	68,947	-	-	-	68,947	136,296
Facility insurance	-	-	35,486	-	35,486	35,310
Miscellaneous Expenses -						
Uniforms	7,309	10,083	-	-	17,392	17,072
Building maintenance and repair	-	18,145	-	10,481	28,626	24,090
Other miscellaneous expenses	15,384	2,945	29,070	-	47,399	33,156
Depreciation and amortization	857,505	179,144	2,672	63,756	1,103,077	1,069,561
Total Operating Expenses	<u>\$ 6,012,847</u>	<u>\$ 1,399,484</u>	<u>\$ 608,620</u>	<u>\$ 180,817</u>	<u>\$ 8,201,768</u>	<u>\$ 7,757,212</u>



# BLUE WATER AREA TRANSPORTATION COMMISSION

## Port Huron, Michigan

### DETAILED SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2006 WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2005

	2006				
	Regular Service	Charter Township of Port Huron	City of Marysville	Agency Urban Expenses	Total Urban Expenses
<b>Expenses:</b>					
Administrative -					
Salaries	\$ 169,238	\$ 21,508	\$ 13,410	\$ 3,246	\$ 207,402
Pension	13,414	1,705	1,063	257	16,439
Other fringes	59,790	7,599	4,738	1,147	73,274
Accounting and legal	40,993	5,210	3,248	786	50,237
Telephone	4,031	512	319	77	4,939
Supplies	12,828	1,630	1,016	246	15,720
Travel and training	7,281	925	577	140	8,923
Public information	16,876	2,145	1,337	324	20,682
Insurance	21,266	2,703	1,685	408	26,062
Depreciation	1,601	203	127	31	1,962
Other	17,421	2,214	1,380	334	21,349
Administration Allocation	( 191,299)	( 24,312)	( 15,158)	136,946	( 93,823)
Total Administrative Expenses	<u>173,440</u>	<u>22,042</u>	<u>13,742</u>	<u>143,942</u>	<u>353,166</u>
Operational -					
Drivers' wages	721,623	91,709	57,179	13,841	884,352
Drivers' pension	27,706	3,521	2,195	531	33,953
Drivers' other fringes	234,879	29,850	18,611	4,505	287,845
Dispatchers' wages	103,066	13,098	8,167	1,977	126,308
Dispatchers' pension	8,815	1,120	698	169	10,802
Dispatchers' other fringes	45,938	5,838	3,640	881	56,297
Gasoline, diesel fuel and CNG	214,071	27,206	16,962	4,106	262,345
Oil and lubricants	7,178	912	569	138	8,797
Tires and tubes	20,913	2,658	1,657	401	25,629
Dispatch telephone	5,968	758	473	114	7,313
Uniforms	4,380	557	347	84	5,368
Vehicle insurance	41,319	5,251	3,274	793	50,637
Purchased transportation	-	-	-	1,275,841	1,275,841
Depreciation	513,893	65,309	40,719	9,857	629,778
Other	9,219	1,172	730	177	11,298
Total Operational Expenses	<u>1,958,968</u>	<u>248,959</u>	<u>155,221</u>	<u>1,313,415</u>	<u>3,676,563</u>

					2005
Burtchville Township	Agency Rural Expenses	Total Rural Expenses	Charter Service	Total Expenses	Total Expenses
\$ 12,548	\$ 61,675	\$ 74,223	\$ 773	\$ 282,398	\$ 267,324
995	4,888	5,883	61	22,383	20,870
4,433	21,789	26,222	273	99,769	80,334
3,039	14,939	17,978	187	68,402	72,781
299	1,469	1,768	18	6,725	6,199
951	4,675	5,626	59	21,405	14,980
540	2,653	3,193	34	12,150	12,828
1,251	6,150	7,401	77	28,160	30,689
1,577	7,750	9,327	97	35,486	35,310
119	583	702	8	2,672	2,667
1,292	6,349	7,641	80	29,070	17,149
( 14,183)	108,879	94,696	( 874)	-	-
12,861	241,799	254,660	793	608,620	561,131
53,503	262,979	316,482	3,297	1,204,131	1,136,162
2,054	10,097	12,151	126	46,230	44,703
17,415	85,596	103,011	1,073	391,929	330,823
7,642	37,560	45,202	471	171,981	157,779
654	3,213	3,867	40	14,709	13,783
3,406	16,741	20,147	211	76,655	58,066
15,872	78,013	93,885	978	357,208	338,777
532	2,616	3,148	33	11,978	19,445
1,551	7,621	9,172	96	34,897	23,798
442	2,175	2,617	28	9,958	9,995
325	1,596	1,921	20	7,309	6,050
3,063	15,058	18,121	189	68,947	136,296
-	1,468,185	1,468,185	-	2,744,026	2,612,554
38,101	187,277	225,378	2,349	857,505	824,945
684	3,360	4,044	42	15,384	12,526
145,244	2,182,087	2,327,331	8,953	6,012,847	5,725,702

# BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

## DETAILED SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2005

(Cont'd)

	2006				
	Regular Service	Charter Township of Port Huron	City of Marysville	Agency Urban Expenses	Total Urban Expenses
<b>Expenses - (cont'd):</b>					
Maintenance -					
Wages	\$ 318,314	\$ 40,454	\$ 25,222	\$ 6,105	\$ 390,095
Pension	21,118	2,684	1,673	405	25,880
Other fringes	103,049	13,096	8,165	1,977	126,287
Supplies	3,486	443	276	67	4,272
Parts	184,609	23,461	14,628	3,541	226,239
Small tools	1,892	241	150	36	2,319
Cleaning supplies	9,725	1,236	771	187	11,919
Travel and training	2,257	287	179	43	2,766
Uniforms	6,042	768	479	116	7,405
Equipment rental	83	11	7	2	103
Repairs and maintenance	10,874	1,382	862	209	13,327
Purchased services	66,474	8,448	5,267	1,275	81,464
Bus shelter maintenance	1,732	220	137	33	2,122
Equipment depreciation	107,359	13,644	8,507	2,059	131,569
Other	1,681	214	133	32	2,060
Total Maintenance Expenses	<u>838,695</u>	<u>106,589</u>	<u>66,456</u>	<u>16,087</u>	<u>1,027,827</u>
Facilities -					
Utilities -					
Heat	12,962	1,647	1,027	249	15,885
Electricity	11,357	1,443	900	218	13,918
Water	5,572	708	441	107	6,828
Rent	27,199	3,457	2,155	522	33,333
Building maintenance and repair	6,281	798	498	120	7,697
Security service	6,783	862	537	130	8,312
Building depreciation	38,208	4,856	3,027	733	46,824
Total Facilities Expenses	<u>108,362</u>	<u>13,771</u>	<u>8,585</u>	<u>2,079</u>	<u>132,797</u>
Total Expenses	<u>3,079,465</u>	<u>391,361</u>	<u>244,004</u>	<u>1,475,523</u>	<u>5,190,353</u>
Less Ineligible Expenses:					
Insurance - Risk Pool	14,983	1,904	1,187	287	18,361
Depreciation	( 646,025)	( 82,102)	( 51,189)	( 12,391)	( 791,707)
Maintenance Services	( 16,783)	( 2,133)	( 1,330)	( 322)	( 20,568)
Association Dues	( 1,834)	( 233)	( 145)	( 35)	( 2,247)
Total Ineligible Expenses	<u>( 649,659)</u>	<u>( 82,564)</u>	<u>( 51,477)</u>	<u>( 12,461)</u>	<u>( 796,161)</u>
Net Eligible Expenses	<u>\$ 2,429,806</u>	<u>\$ 308,797</u>	<u>\$ 192,527</u>	<u>\$ 1,463,062</u>	<u>\$ 4,394,192</u>

<u>Burtchville Township</u>	<u>Agency Rural Expenses</u>	<u>Total Rural Expenses</u>	<u>Charter Service</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
\$ 23,601	\$ 116,002	\$ 139,603	\$ 1,454	\$ 531,152	496,535
1,566	7,696	9,262	96	35,238	34,059
7,640	37,554	45,194	471	171,952	136,816
258	1,270	1,528	16	5,816	5,919
13,687	67,277	80,964	843	308,046	295,053
140	690	830	9	3,158	3,513
721	3,544	4,265	44	16,228	15,636
167	823	990	10	3,766	7,595
448	2,202	2,650	28	10,083	11,022
6	30	36	-	139	187
806	3,963	4,769	49	18,145	13,238
4,929	24,225	29,154	304	110,922	85,374
128	631	759	8	2,889	2,669
7,960	39,124	47,084	491	179,144	174,591
125	613	738	8	2,806	3,294
<u>62,182</u>	<u>305,644</u>	<u>367,826</u>	<u>3,831</u>	<u>1,399,484</u>	<u>1,285,501</u>
961	4,724	5,685	59	21,629	22,335
842	4,139	4,981	52	18,951	17,238
413	2,030	2,443	25	9,296	8,794
2,017	9,912	11,929	124	45,386	45,317
466	2,289	2,755	29	10,481	10,852
503	2,472	2,975	31	11,318	12,984
2,833	13,924	16,757	175	63,756	67,358
<u>8,035</u>	<u>39,490</u>	<u>47,525</u>	<u>495</u>	<u>180,817</u>	<u>184,878</u>
<u>228,322</u>	<u>2,769,020</u>	<u>2,997,342</u>	<u>14,072</u>	<u>8,201,768</u>	<u>7,757,212</u>
1,111	5,460	6,571	68	25,000	25,000
( 47,898)	( 235,430)	( 283,328)	( 2,951)	( 1,077,986)	(1,044,473)
( 1,244)	( 6,116)	( 7,360)	( 77)	( 28,005)	(13,165)
( 136)	( 668)	( 804)	( 8)	( 3,059)	( 901)
<u>( 48,167)</u>	<u>( 236,754)</u>	<u>( 284,921)</u>	<u>( 2,968)</u>	<u>( 1,084,050)</u>	<u>(1,033,539)</u>
<u>\$ 180,155</u>	<u>\$ 2,532,266</u>	<u>\$ 2,712,421</u>	<u>\$ 11,104</u>	<u>\$ 7,117,718</u>	<u>\$ 6,723,673</u>

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**SCHEDULE OF MILEAGE DATA (UNAUDITED)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**  
**WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2005**

	<u>Transit Mileage</u>	<u>Charter Service</u>	<u>New Start</u>	<u>Agency Mileage</u>	<u>Total Mileage</u>
<b>Line-Haul</b>					
1st Quarter	95,365	675	-	-	96,040
2nd Quarter	95,794	492	-	-	96,286
3rd Quarter	103,673	200	-	-	103,873
4th Quarter	<u>96,501</u>	<u>1,870</u>	<u>-</u>	<u>-</u>	<u>98,371</u>
<b>Total Line-Haul</b>	<u><u>391,333</u></u>	<u><u>3,237</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>394,570</u></u>
<b>Demand-Response</b>					
1st Quarter	50,167	-	44,774	271,909	366,850
2nd Quarter	56,619	-	45,655	283,638	385,912
3rd Quarter	54,683	-	42,646	305,048	402,377
4th Quarter	<u>53,391</u>	<u>-</u>	<u>44,469</u>	<u>291,832</u>	<u>389,692</u>
<b>Total Demand-Response</b>	<u><u>214,860</u></u>	<u><u>-</u></u>	<u><u>177,544</u></u>	<u><u>1,152,427</u></u>	<u><u>1,544,831</u></u>
<b>Total Mileage</b>	<u><u>606,193</u></u>	<u><u>3,237</u></u>	<u><u>177,544</u></u>	<u><u>1,152,427</u></u>	<u><u>1,939,401</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

**SUPPLEMENTARY INFORMATION  
ON FEDERAL AND STATE AWARDS**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners  
Blue Water Area Transportation Commission  
Port Huron, Michigan

We have audited the financial statements of the Blue Water Area Transportation Commission as of and for the year ended September 30, 2006, and have issued our report thereon, dated December 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Blue Water Area Transportation Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Blue Water Area Transportation Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Blue Water Area Transportation Commission in a separate letter dated December 19, 2006.

This report is intended solely for the information and use of the audit committee, management and the Board of Commissioners of the Blue Water Area Transportation Commission, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

December 19, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Blue Water Area Transportation Commission  
Port Huron, Michigan

**Compliance**

We have audited the compliance of the Blue Water Area Transportation Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Blue Water Area Transportation Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Blue Water Area Transportation Commission's management. Our responsibility is to express an opinion on the Blue Water Area Transportation Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Blue Water Area Transportation Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Blue Water Area Transportation Commission's compliance with those requirements.

In our opinion, the Blue Water Area Transportation Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

**Internal Control Over Compliance**

The management of the Blue Water Area Transportation Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Blue Water Area Transportation Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the audit committee, management and the Board of Commissioners of the Blue Water Area Transportation Commission, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

December 19, 2006

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grantor Number	Program or Award Amount	Current Year's Expenditures			Prior	Amount Remaining	
				Total Expenditures	State Expenditures	Federal Expenditures	Year's Expenditures		
U.S. DEPARTMENT OF TRANSPORTATION:									
Direct Assistance -									
Capital Assistance -									
Section 115	20.500	MI-15-X001	\$ 2,000,000	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -	\$ -	
Section 5309		MI-03-0168	490,547	-	-	-	454,296	36,251	
Section 5309		MI-03-0193	2,468,723	2,160,723	-	2,160,723	308,000	-	
Section 5309		MI-03-0224	2,915,334	2,915,334	-	2,915,334	-	-	
Section 5309		MI-04-0005	990,000	990,000	-	990,000	-	-	
Section 5307	20.507	MI-90-X362	529,496	-	-	-	518,277	11,219	
Section 5307		MI-90-X390	938,000	17,534	-	17,534	339,685	580,781	
Section 5307		MI-90-X409	416,000	-	-	-	-	416,000	
Section 5307		MI-90-X416	189,200	4,368	-	4,368	43,089	141,743	
Section 5307		MI-90-X445	636,000	-	-	-	-	636,000	
Section 5307		MI-90-X446	165,600	10,555	-	10,555	9,633	145,412	
Section 5307		MI-90-X477	300,000	-	-	-	-	300,000	
Section 5307		MI-90-X479	16,000	-	-	-	-	16,000	
Section 5307		MI-90-X506	40,240	-	-	-	-	40,240	
Section 5307		MI-90-X513	2,188,000	-	-	-	-	2,188,000	
			14,283,140	8,098,514	-	8,098,514	1,672,980	4,511,646	
Passed Through Michigan Department of Transportation -									
Capital Assistance -									
Section 5309	20.500	2000-0450/A3	1,730,659	-	-	-	290,659	1,440,000	
Section 5309		2002-0020/Z16	330,480	-	-	-	-	330,480	
MICHIGAN DEPARTMENT OF TRANSPORTATION:									
Capital Assistance -									
Section 5307/CMAQ	N/A	2001-0845	132,374	-	-	-	129,569	2,805	
Section 5307/CMAQ	N/A	2002-0020/Z8	159,000	-	-	-	-	159,000	
Section 5307/CMAQ	N/A	2002-0020/Z13	75,000	-	-	-	-	75,000	
Section 5307/CMAQ	N/A	2002-0020/Z19	547,000	-	-	-	-	547,000	
Section 5309	N/A	2000-0801	122,637	-	-	-	113,574	9,063	
Section 5309	N/A	2000-0450/A3	432,665	-	-	-	72,665	360,000	
Section 5309	N/A	2002-0020/Z11	617,181	540,181	540,181	-	77,000	-	
Section 5309	N/A	2002-0020/Z12	728,834	728,834	728,834	-	-	-	
Section 5309	N/A	2002-0020/Z16	82,620	-	-	-	-	82,620	
Section 5309	N/A	2002-0020/Z18	247,500	247,500	247,500	-	-	-	

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grantor Number	Program or Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Amount Remaining
				Total Expenditures	State Expenditures	Federal Expenditures		
Section 5307	N/A	2002-0020/Z3	234,500	4,384	4,384	-	84,920	145,196
Section 5307	N/A	2002-0020/Z5	47,300	1,092	1,092	-	10,771	35,437
Section 5307	N/A	2002-0020/Z6	104,000	-	-	-	-	104,000
Section 5307	N/A	2002-0020/Z10	41,400	2,639	2,639	-	2,409	36,352
Section 5307	N/A	2002-0020/Z15	4,000	-	-	-	-	4,000
Section 5307	N/A	2002-0020/Z17	4,000	-	-	-	-	4,000
Total Capital Assistance			19,924,290	9,623,144	1,524,630	8,098,514	2,454,547	7,846,599

**U.S. DEPARTMENT OF TRANSPORTATION:**

**Direct Assistance -**

Operating Assistance - Section 5307	20.507	MI-90-X506	1,087,023	1,087,023	-	1,087,023	-	-
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**Passed Through Michigan Department of Transportation -**

Operating Assistance - Section 5311	20.509	2002-0020/Z9	326,266	-	-	-	234,886	91,380
Operating Assistance - Section 5311		2002-0020/Z14	440,607	461,112	-	461,112	-	( 20,505)

**MICHIGAN DEPARTMENT OF TRANSPORTATION:**

Operating Assistance - Act 51	N/A	9/30/06	2,891,213	2,891,213	2,891,213	-	-	-
			4,745,109	4,439,348	2,891,213	1,548,135	234,886	70,875

**Total Federal and State Awards**

\$ 24,669,399	\$ 14,062,492	\$ 4,415,843	\$ 9,646,649	\$ 2,689,433	\$ 7,917,474
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**Memo Only:**

State and Federal Operating Assistance Computation  
Based on Operating Expenditures

\$ 7,106,614

See Notes to Schedule of Expenditures  
of Federal and State Awards

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**NOTES TO SCHEDULE OF EXPENDITURES OF  
FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2006**

**NOTE 1 - BASIS OF PRESENTATION:**

The Blue Water Area Transportation Commission (BWATC) is accounted for in essentially the same manner as state and local governments' Enterprise Funds. The Commission reports on the accrual basis of accounting for financial statement presentation in accordance with accounting principles generally accepted in the United States of America.

The accompanying schedule of expenditures of federal and state awards includes the federal grant activity of Blue Water Area Transportation Commission and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS:**

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Financial Statements –			
Non-operating revenue – State and Federal	\$ 1,548,135	\$ 2,906,211	\$ 4,454,346
Capital Grants	<u>8,098,514</u>	<u>1,524,630</u>	<u>9,623,144</u>
	9,646,649	4,430,841	14,077,490
Reconciling Items –			
SBT Inventory Tax not Reported on the Schedule			
of Expenditures of Federal and State Awards	_____ -	( <u>14,998</u> )	( <u>14,998</u> )
Total Federal and State Awards	<u>\$ 9,646,649</u>	<u>\$ 4,415,843</u>	<u>\$14,062,492</u>

**NOTE 3 - SUBRECIPIENTS:**

Of the expenditures presented in the Schedule of Expenditures of Federal and State Awards, the Blue Water Area Transportation Commission provided awards to subrecipients as follows:

Operating Assistance – Section 5311	CFDA #20.509	\$ 250,935
Operating Assistance – Act 51	N/A	<u>1,008,973</u>
		<u>\$ 1,259,908</u>

**BLUE WATER AREA TRANSPORTATION COMMISSION**  
**Port Huron, Michigan**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**Section I – Summary Of Auditor’s Results:**

**Financial Statements**

Type of auditor’s report issued: Unqualified

Internal controls over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes      x   no

Reportable condition(s) identified not considered to be material weaknesses? \_\_\_\_\_ yes      x   none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes      x   no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes      x   no

Reportable condition(s) identified not considered to be material weaknesses? \_\_\_\_\_ yes      x   none reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A – 133, Section 510(a)? \_\_\_\_\_ yes      x   no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #20.500	Cluster -
CFDA #20.507	Federal Transit Capital Improvement Grant
	Federal Transit Capital and Operating Assistance
	Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?   x   yes    \_\_\_\_\_ no

**Section II - Financial Statement Findings:**

There were no financial statement findings.

**Section III - Federal Award Findings and Questioned Costs:**

There were no Federal Award Findings and Questioned Costs required to be reported by Section 510(a) of OMB Circular A-133.

**Section IV - Prior Year Findings and Questioned Costs:**

There were no prior year Findings and Questioned Costs.



## MANAGEMENT LETTER RELATING TO COMPLIANCE ISSUES

Board of Commissioners  
Blue Water Area Transportation Commission  
Port Huron, Michigan

We have recently completed the financial and compliance audits of the Blue Water Area Transportation Commission for the year ended September 30, 2006. In connection with the audits, we believe certain change in your administrative and accounting procedures relating to certain compliance issue should be implemented. These observations are a result of our audit of compliance requirements relating to the major programs under your administration. As noted in our *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, dated December 19, 2006, these observations were not considered material. However, we believe that they require your immediate attention.

**The percentage of rural miles/expenses for contract agencies should be confirmed annually.**

Annually, before the beginning of the fiscal year, the Blue Water Area Transportation Commission requests that the agencies that provided contracted transportation provide the estimated percentage of "rural" miles to their total miles. At the end of the year unless otherwise notified, this percentage is utilized to calculate the expenses that qualify for federal reimbursement under Section 5311.

Because the routes can change throughout the year, we recommend that the Commission obtain written verification of the "rural" percentage with their annual reporting of expenses. This percentage should then be utilized to calculate the eligible 5311 expenses.

This report is intended for the information of Management and the Board of Commissioners of the Blue Water Area Transportation Commission and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss this observation with you and to provide assistance in the implementation of improvements.

Sincerely,

December 19, 2006

## MANAGEMENT LETTER

To the Board of Commissioners  
Blue Water Area Transportation Commission  
Port Huron, Michigan

As you know, we have recently completed our audit of the financial statements of the Blue Water Area Transportation Commission as of and for the year ended September 30, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and operational efficiency. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards*, dated December 19, 2006, the conditions described below are not considered reportable conditions or material weaknesses.

### **A formal policy should be adopted to pay bills before Board Approval.**

The Michigan Department of Treasury has issued new guidance that requires the Board to approve all disbursements before invoices are paid. Since the Board only meets once a month, this would be almost impossible. The Michigan Department of Treasury however, does allow bills to be paid prior to approval if a formal policy is approved and the disbursements are subsequently approved at the next meeting.

We recommend that the Board adopt a formal policy authorizing the Executive Director to approve and pay bills that must be paid prior to the Board meeting. These disbursements and any that can wait for the Board meeting should then be approved at the next meeting.

### **Employee gifts and parties and not allowable expenditures under the Michigan Compiled Laws.**

During our audit, we noted a couple of minor instances that the Commission purchased gifts and provided a Christmas party for its employees. It is our understanding that the Michigan Compiled Laws do not allow these types of expenditures for governmental units.

### **Detailed support should be attached to meal reimbursements.**

During our audit, we noted that there were a few instances where employees were reimbursed for meals, but only a copy of the total price of the meal was included. Because the Michigan Compiled Laws do not allow for the reimbursement of certain items, including liquor, we recommend that a detail of the purchase be included and the business purpose be clearly indicated.



**Continuing professional education courses must relate and enhance the service of public transportation.**

During our audit, we noted a continuing professional education course that it appeared had very little benefit of providing transportation services. OMB Circular A-87 requires that expenses be "necessary and reasonable for proper and efficient performance and administration of Federal Awards".

For continuing professional education courses where the benefit is not obvious, we recommend that the benefits to the Commission be documented.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the September 30, 2006 financial statements. We have not considered internal control since the date of our report. It is always important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information and use of the management and the Board of Commissioners, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

December 19, 2006